

# CHALLENGES AND OPTIONS FOR EUROPE WITHIN THE FRAMEWORK OF EUROPE 2020 – THE NEW LISBON STRATEGY

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## **Abstract:**

*This paper aims to outline the key elements of the new Lisbon Strategy and the main priorities of the European Union in times of economic crisis, pointing out the opportunity of using the economic downturn to increase Europe's global competitiveness by having a shift in emphasis from mainly improving the employment participation to also improving labour productivity per hour worked, prioritizing skills and human capital development and investing in innovative solutions that allow transition to a knowledge-based society and long-term development.*

**Key words:** *sustainable economic growth, employment, labour productivity, structural unemployment, competitiveness*

**JEL classification:** *F15, J01, O10*

## **1. Introduction**

The greatest economic and financial crisis in decades has generated a sharp economic contraction in Europe, taking a heavy toll on public finances, businesses, employment and households.

The original Lisbon Strategy was launched in 2000 as a response to the challenges of globalization and ageing. The core objective of the strategy for the European Union was “*to become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs, greater social cohesion and respect for the environment*”<sup>1</sup>. The strategy gradually developed into an overly complex structure with multiple goals and actions and an unclear division of responsibilities and tasks, particularly between the European Union and national levels. The Lisbon Strategy was therefore re-launched in 2005 following a mid-term review and focused on growth and jobs.

The strategy focused on the right structural reforms, research and development, labour markets (flexicurity, skills and lifelong learning), the business environment and consolidation of public finances which are all crucial areas to preparing the European Union for globalization, ageing and enhancing the EU's prosperity<sup>2</sup>.

Thus, Lisbon Agenda has had a significant role in advancing policy formulation and implementation in the areas of innovation and labour productivity<sup>3</sup>. The most valuable characteristics concern the emphasis on external competitiveness, the central role of innovation, the importance of human capital, improving the legal framework of

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<sup>1</sup> European Commission (2010), “Lisbon Strategy evaluation document”, SEC (2010), Brussels, 2 February 2010

<sup>2</sup> European Commission (2009), “Consultation on the future “EU 2020” Strategy”, Commission Working Document no. 647, 24 November 2009

<sup>3</sup> Roinn Fiontar, Tradala agus Fostaiochta (2009), “Global Europe: towards 2020”, Department of Entreprises, Trade and Employment, 17 October 2009

the Single Market. However, there were some key weaknesses<sup>4</sup> of the Lisbon Strategy concerning insufficient attention to the resource implications of achievement of the targets, excessive number of targets, lack of integrated communications strategy, inadequate attention to the role of trade and foreign investment and generally a weak response to the process of globalization.

In assessing ten years of the Lisbon strategy<sup>5</sup>, the central point is the impact on growth and jobs and that the strategy was not implemented in isolation, due to the fact that the European Union has grown from 15 Member States in 2000 to 27 Member States today. Also, the euro has developed into a major world currency: membership of the euro-area has grown from 12 countries in 1999 to 16 countries today, and the euro has proved to be an anchor for macroeconomic stability during the current crisis.

Overall, the Lisbon Strategy has had a positive impact on the European Union even though its main targets were not reached, failing to close the productivity gap with leading industrialized countries.

Macro-economic imbalances and competitiveness problems were at the root of economic crisis and were not adequately addressed in the surveillance of Member States' economies carried out by the Lisbon Strategy, which tended to operate in parallel rather than completing one another<sup>6</sup>. The specific nature of the global recession presents immediate challenges and responses, requiring a special attention to the impact of economic crisis on future growth and employment prospects. Therefore, as a response to the new economic conditions and the need for the economy to adjust to the changing requirements internationally, the European Union framed a new strategy, Europe 2020, that will focus on the development of exit strategies out of the recession and upon a set of policy actions that will promote employment participation, labour productivity, competitiveness and innovation.

*Europe 2020* is being designed as the successor to the former Lisbon Strategy, which has been the European Union's reform strategy for the last decade and has helped the EU to weather the storm of the recent crisis. Europe 2020 builds on its achievements as a partnership for growth and job creation, and renewing it to meet new challenges, focusing on key policy areas where collaboration between the European Union and member states can deliver the best results, and on improved delivery through better use of the instruments at hand.

## 2. Economic and social policy in the light of Europe 2020 Strategy

The European Union's social and economic policy agenda continue to focus on increasing prosperity, promoting sustainability in three dimensions: social, ecological and financial/economic. The extent to which that is possible depends largely on improving both the employment participation rate and labour productivity. The social dimension of the original Lisbon Strategy concerning "*more and better jobs and greater social cohesion*" continues to be an important component of the post-Lisbon Agenda.

The key drivers of Europe 2020 are<sup>7</sup>: ***(i) creating value by basing growth on-knowledge***, meaning that opportunity and social cohesion should be enhanced in a world where innovation makes the difference in both products and processes, harnessing the potential of education, research and of the digital economy; ***(ii) empowering people in inclusive societies***, covering the acquisition of new skills, fostering creativity and innovation, the development of entrepreneurship and a smooth transition between jobs

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<sup>4</sup> European Commission (2008), "Progress towards the Lisbon objectives in education and training. Indicators and benchmarks 2008", publication based on document SEC (2008) 2293

<sup>5</sup> European Commission (2010), "Lisbon Strategy evaluation document", SEC (2010), Brussels, 2 February 2010

<sup>6</sup> European Commission (2010), "Lisbon Strategy evaluation document", SEC (2010), Brussels, 2 February 2010

<sup>7</sup> Social Economische Raad (2009), "Europe 2020: The new Lisbon Strategy" Advisory Report, Hague, 23 July 2009

will be crucial in a world which will offer more jobs in exchange for greater adaptability; *(iii) creating a competitive, connected and greener economy*, by underlining that the European Union should compete more effectively and increase its productivity by a lower and more efficient consumption of non-renewable energy and resources in a world of high energy and resources prices, and greater competition for energy and resources.

The main objective of the new Europe 2020 Strategy<sup>8</sup>, *creating value by basing growth on knowledge*, implies strengthening education as one of the most effective ways of fighting inequality and poverty.

**Table 1 Benchmarks set for 2010 by the Lisbon Strategy and the new targets of Europe 2020 Strategy**

Benchmarks of Europe 2020		Benchmarks of Lisbon Strategy	
Employment rate (aged 20-64 )	75%	Employment rate (aged 20-64 )	70%
Investment in R&D (percentage of GDP)	3%	Investment in R&D (percentage of GDP)	3%
Early school leavers (18-24, %)	< 10	Early school leavers (18-24, %)	< 10
Risk of poverty	20 million people less	Annual economic growth	Around 3%
Lifelong Learning Participation (% of adults, 25-64)	13,5%	Lifelong Learning Participation (% of adults, 25-64)	12,5%

Source: Social Economische Raad, "Europe 2020: The new Lisbon Strategy" Advisory Report, The Hague, July 2009

The new Europe 2020 Strategy implies a shift in emphasis, meaning that after 2010, Europe's social and economic policy agenda will focus more on improving labour productivity per hour worked, not only on improving the employment participation rate<sup>9</sup>. This implies achieving a progress in various fields such as research and development, innovation and entrepreneurship, by completing the internal market and creating a European research area.

The main priorities for the new strategy are *employment guidelines* due to the challenges that the European Union is facing. These guidelines refer to<sup>10</sup>: *(i)* getting more people into the labour market, increasing the supply of labour and updating social security systems; *(ii)* investments in human capital leading to improving education, training and skills; *(iii)* improving the adaptability of employees and businesses, focusing on *flexicurity* as the guiding principle and a key element of the social policy agenda. Flexicurity is seen as a labour market instrument that aims, by means of rules and regulations, support and incentives, to improve flexibility in employment relations and labour mobility and to ensure income and employment security.

Until the crisis, Europe was registering important progresses. Labour markets were performing well, with participation levels rising to 66% and unemployment levels were dropping to 7% and the GDP growth was very close to the Lisbon Strategy's envisaged 3% average growth.

Since the launch of the Lisbon Strategy in 2000, the European economy has experienced periods of cyclical upturns and downturns. The downturn 2002-2003 was followed by five years of increasingly strong economic developments characterized by price stability, steady economic growth and job creation and declining level of unemployment. The backdrop to the re-launch of the Lisbon Strategy in 2005 was therefore a stable macroeconomic environment which prevailed broadly until 2008. The

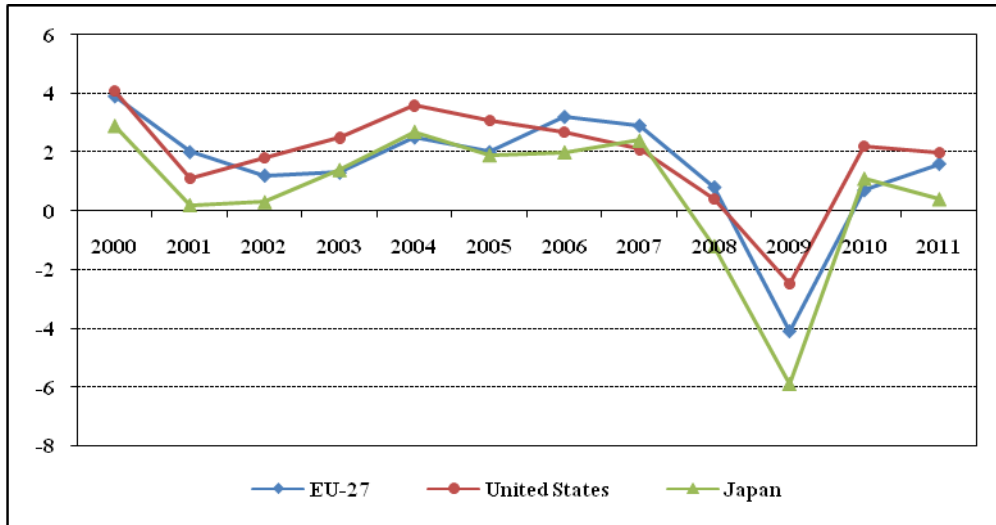
<sup>8</sup> Roinn Fiontar, Tradala agus Fostaiochta (2009), "Global Europe: towards 2020", Department of Enterprises, Trade and Employment, 17 October 2009

<sup>9</sup> European Commission (2009), "Consultation on the future "EU 2020" Strategy", Commission Working Document no. 647, 24 November 2009

<sup>10</sup> Social Economische Raad (2009), "Europe 2020: The new Lisbon Strategy" Advisory Report, Hague, 23 July 2009

economic crisis radically altered these general performances. While average GDP growth in the European Union had risen to around 3% per year in 2006-2007, it plunged to -4% in 2009. Similarly, unemployment increased from a low of 7% in 2007 to its current rate approaching 10%.

**Figure 1 GDP growth of European Union, United States and Japan, 2000 – 2011, %**

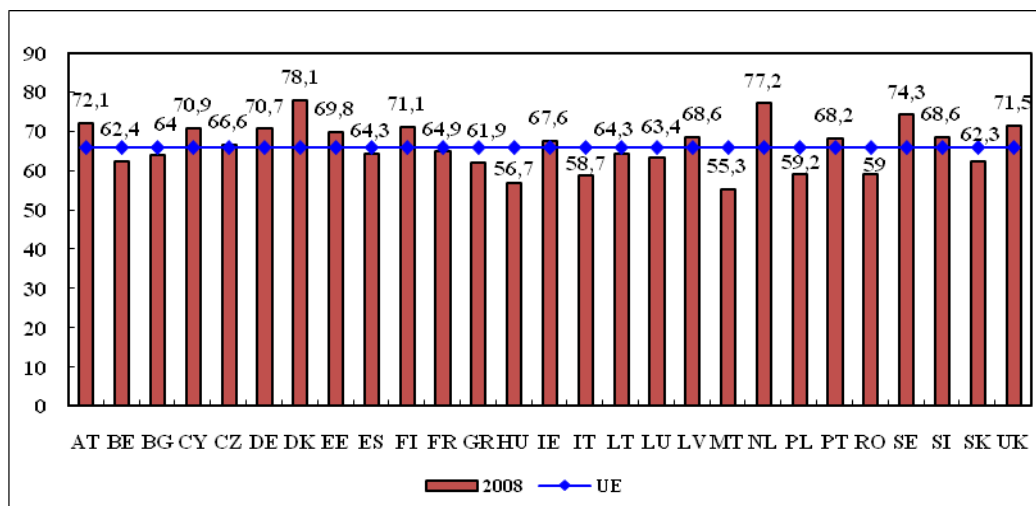


Source: Eurostat, National Accounts

GDP growth started to decrease at the end of 2007, but in 2009 the decrease was major, due to the fact that the GDP growth rate registered negative values of -5.9% for Japan, -4.1% for the European Union and -2.5% for United States, mainly due to the economic and financial global crisis. Still, an improvement of the economic activity it is been foreseen for 2010, when GDP growth will register positive values.

The significant increase of employment in the last years has generated a progress in the employment rate. Thus, in the European Union, employment has increased significantly from an average of 64.5% in 2006 to about 66% in 2008, very close to the Lisbon target for 2010 of 70%. At the same time, while EU employment rate is about 3.5% above its 2000 level it still remain 4.6% to reach the target set by the Lisbon Strategy.

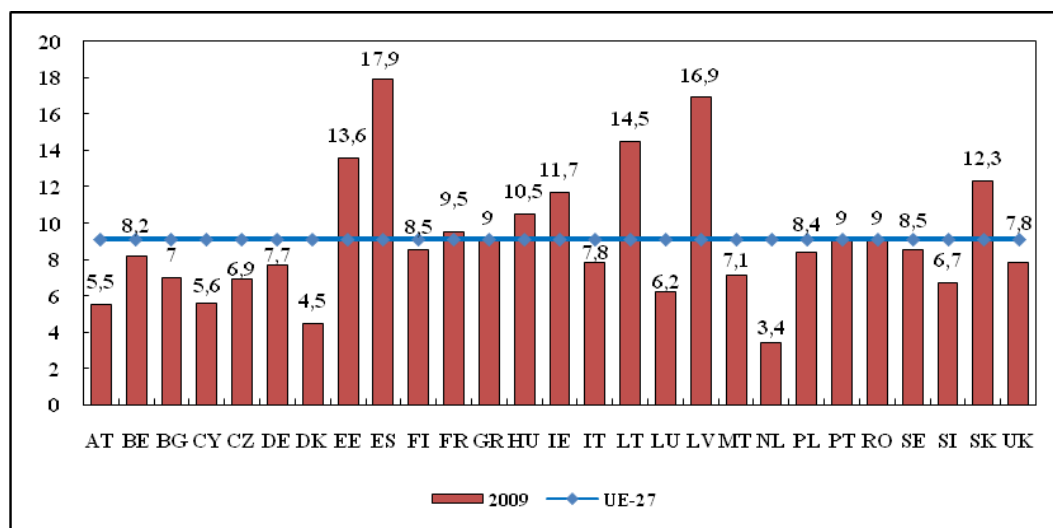
**Figure 2 Employment rate, 2008, %**



Source: Eurostat, National Accounts, Labour market

The employment situation between the EU member states is very different. In 2008 the employment rate was above the 70% target in eight member states, like Denmark (78,1%), Netherlands (77,2%), Sweden (74,3%), Austria (72,1%), United Kingdom (71,5%), Finland (71,1%), Cyprus (70,9%) and Germany (70,7%), while five member states registered employment rates of about 3% distance from the Lisbon target: Estonia (69,8%), Latvia (68,6%), Slovenia (68,6%), Portugal (68,2%) and Ireland (67,6%).

**Figure 3 Unemployment rate, 2009, %**



Source: European Commission, Ameco Database, Labour market

The EU member states registered unemployment rates below 10% and these levels were maintained until 2008 by all member states, except for Spain (11.3%).

In 2009 the unemployment situation was quite different, many EU member states registering unemployment rates above 10%: Spain (17.9%), Latvia (16.9%), Lithuania (14.5%), Estonia (13.6%), Slovakia (12.3%), Ireland (11.7%) and Hungary (10.5%). The lowest unemployment rate was registered by Netherlands (3.4%), Denmark (4.5%), Austria (5.5%), Cyprus (5.6%) or Luxemburg (6.2%). The differences between the member states concerning unemployment underline the differences between long term unemployment and structural unemployment. At EU level, the average of structural unemployment rate was of 7.1%, the highest structural unemployment rate between the member states was registered by Slovakia (12%) and the lowest rate was registered by Netherlands (3.2%).

### 3. Conclusions

European Union has become a key player on the world stage, channelling the globalization process to sustainable growth in public prosperity within and outside EU, even though its own policy making can have unintended negative effects in non-EU countries. The credit crisis has demonstrated that well intentioned policy meant to prevent damage at national level can lead to major imbalances in other countries. Therefore, the new Europe 2020 strategy, through its various objectives can be mutually reinforcing, meaning that a sound social policy allows taking risks, which in turn promotes economic growth and working towards sustainability promotes innovation.

As a result of the present economic and financial crisis, the European Union must focus on long-term strategic planning and stronger co-ordination and use this

downturn as a lever to address future challenges, particularly in the area of economic activities, labour market, skills requirements and climate change policies.

The crisis has exacerbated the long-term social challenges Europe faces nowadays, such as the integration of an increasing immigrant population, social exclusion, child poverty and solidarity between generations in the context of an ageing society. In order to meet these challenges, employment rates of both men and women must rise rapidly and social protection systems will have to be modernized so that they provide an affordable response to the future needs of the society. This implies that new policies must demonstrably contribute to social cohesion, tackling unemployment and fostering social inclusion while securing well performing labour markets, rethinking education systems and labour markets, enhancing mobility and boosting Europe's dynamism towards its innovative and creative potential.

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